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TRADE POLICY REVIEW

REPORT BY

HONG KONG, CHINA

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1 INTRODUCTION

1.1. Hong Kong, China (HKC) is one of the world's most open economies with a business and investment-friendly environment characterized by free trade, free flow of information, sound and transparent regulatory regimes, a robust legal system, simple taxation and low tax rates, and well-developed transport and telecommunications infrastructure.

1.2. In the Index of Economic Freedom released by The Heritage Foundation in 2018, HKC ranked first for the 24th consecutive year. HKC has also consistently been ranked as the freest economy in the Fraser Institute's annual report on Economic Freedom of the World. For 13 years in a row, the World Bank has accredited HKC among the top five economies in terms of ease of paying taxes. The World Bank also ranked HKC the fifth easiest place to do business in the world in the *Doing Business 2018* report.

1.3. The Basic Law of the Hong Kong Special Administrative Region (HKSAR) provides that the HKSAR shall maintain the status of a free port, safeguard the free movement of goods and capital, be a separate customs territory, and may, on its own, using the name "Hong Kong, China", maintain and develop relations and conclude and implement agreements with foreign states and regions or international organizations in the appropriate fields, including but not limited to the economic and trade fields, as well as participate in international organizations and conferences not limited to states. This forms the foundation for HKC's separate membership in the World Trade Organization (WTO).

1.4. The institutions and policies that have served HKC well to date, including the rule of law, free and open market, a simple tax regime, and a level playing field for business, remain the bedrock of HKC's prosperity. Since the last Trade Policy Review in 2014, HKC has continued to leverage on the unique advantages under the "One Country, Two Systems" and inject new impetus to HKC's economy. Through participating in multilateral, regional, plurilateral and bilateral trade agreements, HKC secures, maintains and improves access to foreign markets for its goods and services.

2 ECONOMIC ENVIRONMENT

2.1 Overview

2.1. HKC's economy grew by 2.4% in 2015 and 2.2% in 2016, followed by a pick-up in growth to 3.8% in 2017 alongside the broad-based global economic upturn. The GDP at current market prices reached HK\$2.7 trillion (US\$341 billion) in 2017. The external sector was supported by the broad-based global economic upswing that gave rise to more vibrant global trade flows. Domestic demand also strengthened.

2.2. HKC is a leading trade and financial centre in the world. In 2017, HKC ranked seventh in the world in terms of merchandise trade. In the same year, HKC was the world's sixth largest banking centre in terms of external positions, and had the sixth largest stock market in terms of market capitalization. We were also the fourth largest foreign exchange centre in terms of turnover according to a triennial survey conducted by the Bank for International Settlements in 2016.

2.3. HKC's long-term credit ratings are "AA+" by S&P, "Aa2" by Moody's, and "AA+" by Fitch.

2.2 Economic Outlook

2.4. As a small and open economy, HKC's near-term economic outlook will mainly hinge on the global economic conditions. Looking ahead, the current growth momentum of the global economy should remain supportive to HKC's exports in the near term. Domestic demand should continue to be underpinned by favourable job and income conditions and ongoing infrastructure works. It is forecast that the 2018 annual economic growth will be 3-4%.

2.5. Yet, uncertainties in the external environment increased markedly of late, as a result of the escalation of US trade conflicts with major economies. The expectation of continued US interest rate hikes has also turned firmer. These developments could weigh on global economic sentiment as well as trade and investment activities going forward. Local economic sentiment and asset

markets could also be adversely affected. The HKSAR Government will continue to monitor the situation closely.

2.6. The medium-term outlook for the HKC economy is positive. Asia will remain an important global growth driver. With its strong competitive edges, HKC could leverage on the huge growth potential in Asia.

2.3 Fiscal Policy

2.7. The Government has had fiscal surplus in fourteen consecutive years since 2004 and its fiscal position remains strong. As of March 2018, its accumulated fiscal reserves amounted to HK\$1,103 billion (US\$141 billion). Surplus for the 2017-18 financial year was HK\$149 billion (US\$19 billion) or 5.6% of GDP. According to the medium range forecast for the five-year period ending 2022-23, there will be fiscal surpluses in every financial year during the period, and accumulated fiscal reserves will grow to HK\$1,222 billion (US\$157 billion), representing approximately 35.6% of GDP and 21 months of government expenditure.

2.8. The fiscal philosophy put forward by the Chief Executive in the 2017 Policy Address envisages that, on the premise of ensuring the health of public finance, the Government should adopt forward-looking and strategic financial management principles in optimizing the use of surplus to invest for HKC and relieve people's burdens. HKC strives to be innovative, responding to community aspirations promptly and effectively and making a head start to foster long-term development.

2.9. HKC will ensure the sustainability of public finances by upholding prudent fiscal disciplines and by keeping the government budget commensurate with the growth rate of the economy over time. HKC will also strive to preserve, stabilize and broaden the revenue base.

2.4 Monetary Policy

2.10. HKC is a small and highly externally-oriented economy. HKC's trade-to-GDP ratio was 375% in 2017. A credible fixed-exchange rate system helps minimize the exchange rate risk, benefiting externally-oriented businesses. A stable Hong Kong dollar is also an important anchor for financial stability, which underpins HKC's position as an international financial centre.

2.11. The monetary policy objective of HKC is currency stability, defined as a stable external exchange value of the currency of HKC, in terms of its exchange rate in the foreign exchange market against the U.S. dollar, at around HK\$7.80 to US\$1. The structure of the monetary system is characterized by currency board arrangements, requiring the Hong Kong dollar monetary base to be at least 100% backed by, and changes in it to be 100% matched by corresponding changes in, U.S. dollar reserves held by the Exchange Fund at the fixed-exchange rate of HK\$7.80 to US\$1.

3 TRADE POLICY AND DEVELOPMENTS

3.1 Trade Policy Objectives

3.1. HKC's trade policy objectives are to support and promote a free, open and stable rules-based multilateral trading system; to safeguard our rights and fulfil our obligations under multilateral, regional, plurilateral, and bilateral agreements and arrangements; and to secure, maintain and improve market access for our exports.

3.2. The multilateral trading system under the WTO is the cornerstone of HKC's trade policy. As one of the most externally-oriented and open economies in the world, HKC embraces the globalization of trade and services, and is committed to supporting the multilateral trading system.

3.2 Participation in the World Trade Organization

3.3. HKC is a founding Member and a staunch supporter of the WTO. HKC's participation in the WTO is guided by two key objectives, i.e. to foster progressive global trade liberalization and to strengthen the rules of the multilateral trading system so as to provide an effective framework to protect HKC against arbitrary and discriminatory actions by trading partners. HKC believes that the

rules-based system embodied in the WTO and the dispute settlement mechanism can provide the most effective insurance against trade conflicts and protectionism.

3.4. HKC takes its rights and obligations in the WTO seriously. HKC also attaches great importance to the timely submission of notifications under all WTO Agreements. As the first WTO Member accepting the Agreement on Trade Facilitation (TFA), HKC implemented all provisions in Section I of the TFA upon its entry into force on 22 February 2017. HKC has also established a coordinating mechanism, involving 10 government bureaux and departments, to oversee and facilitate the coordination and implementation of the TFA. HKC will continue to ensure that its non-tariff measures are in compliance with WTO Agreements and are maintained as necessary to protect public health, safety, security and the environment, and to fulfil its international obligations.

3.5. HKC also participates actively in the work of the WTO on all levels. HKC's representatives have taken up various positions in WTO bodies. Its Secretary for Commerce and Economic Development was also one of the three Vice-chairs of the Eleventh Ministerial Conference (MC11). HKC is committed to taking a balanced and progressive approach to strengthen the functions of the WTO and preserve its credibility and relevance. Prior to the MC11, HKC was actively engaged in the discussions on domestic regulation on trade in services, e-commerce, Investment Facilitation for Development and Micro, Small and Medium-sized Enterprises (MSMEs).

3.6. HKC continues to pursue plurilateral initiatives with other interested WTO Members, provided that these initiatives are consistent with WTO rules and can contribute to multilateral trade liberalization. Following the conclusion of negotiation on expanding the product coverage of the Information Technology Agreement (ITA II) during MC10 in 2015, HKC was amongst the first participants to complete the modification of the tariff schedule before 1 July 2016 to implement the tariff elimination of the 201 products agreed under ITA II. HKC will continue to contribute to the work of the Committee of Participants on the Expansion of Trade in Information Technology Products. Being a Party to the Agreement on Government Procurement (GPA), HKC will also continue to actively take part in the work of the Committee on Government Procurement, including discussions on the agreed work programmes in the revised GPA and Members' accession to the GPA. Between 2014-16, HKC has actively participated in the plurilateral negotiations on the Environmental Goods Agreement (EGA), which can be a viable building block for multilateral liberalization of trade in environmental goods and contribute to the international environmental protection agenda. HKC remains committed to the EGA negotiation and looks forward to its early conclusion.

3.3 Participation in Other Regional and International Fora

3.3.1 Asia-Pacific Economic Cooperation

3.7. HKC attaches great importance to regional economic cooperation with the aim of promoting free and open trade in support of the multilateral trading system and contributes to its work. Such work includes, among others, (a) APEC's statements in support of the rules-based multilateral trading system with the WTO at its core; (b) initiatives to improve connectivity and deepen regional economic integration, including the pursuit of the Free Trade Area of the Asia Pacific (FTAAP); (c) initiatives to build capacity of member economies to promote sustainable and inclusive growth in the region; and (d) APEC's work in mapping out its Post-2020 Vision.

3.8. APEC leaders set a visionary goal of free and open trade and investment in Bogor, Indonesia in 1994 (often referred to as "the Bogor Goals") for industrialized economies to achieve no later than 2010 and developing economies no later than 2020. Since 2014, the APEC Policy Support Unit (PSU) has prepared two interim reviews to assess the progress made towards the Bogor Goals, one in 2016 and another in 2018. In the 2018 report, the PSU noted that HKC maintains a liberal, open and transparent regime for services trade and investments.

3.3.2 Organisation for Economic Cooperation and Development

3.9. HKC has been a participant to the Organisation for Economic Cooperation and Development (OECD)'s Trade Committee and Committee and Financial Markets since 1994 and 1995

respectively. HKC has also participated in the Trade Session (renamed as Trade and Investment Session since 2016) of the OECD annual Ministerial Council Meeting since 2009.

3.4 Bilateral and Plurilateral Trade Initiatives

3.10. HKC is committed to strengthening economic relations and seeking trade facilitation and investment-related cooperation with its trading partners. HKC has kept an open mind to negotiating bilateral and plurilateral free trade agreements (FTAs) with its key and potential trading partners, so long as they are in HKC's interests and consistent with WTO rules. So far, HKC has signed seven FTAs, respectively with Mainland China, New Zealand, the Member States of the European Free Trade Association (EFTA), Chile, Macao, the Association of Southeast Asian Nations (ASEAN) and Georgia. We are now negotiating FTAs respectively with Maldives and Australia.

3.4.1 Free Trade and Investment Agreements

3.4.1.1 Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)

3.11. Mainland China and HKSAR signed the "Mainland and Hong Kong Closer Economic Partnership Arrangement" (CEPA) on 29 June 2003. CEPA is the first FTA concluded by HKC. It adopts a building block approach to expand its scope and content for achieving progressive liberalization and facilitation of trade and investment. The two sides have since 2004 signed ten Supplements. Since the last Trade Policy Review in 2014, the two sides have also signed four subsidiary agreements, which are "Agreement between the Mainland and Hong Kong on Achieving Basic Liberalization of Trade in Services in Guangdong" signed in December 2014; "Agreement on Trade in Services" signed in November 2015; "Investment Agreement" and "Agreement on Economic and Technical Cooperation", both signed in June 2017. The two sides will continue to enrich the content of CEPA to achieve further liberalization and facilitation of trade and investment between them.

3.12. CEPA is a comprehensive FTA covering four broad areas, namely:

- (a) trade in goods - all products of HKC's origin can enjoy tariff-free treatment on importation into Mainland China upon fulfilment of the CEPA rules of origin.
- (b) trade in services - the two sides have basically achieved liberalization of trade in services. Mainland China has fully or partially opened up 153 services trade sectors to HKC's services industry, accounting for 95.6% of all the 160 WTO services trade sectors.
- (c) investment - the two sides are committed to providing for investment protection and facilitation, and expand market access commitments to non-services sectors.
- (d) economic and technical cooperation - the two sides have agreed to enhance cooperation in various areas with a view to catering for and supporting the development between the two places, as well as promoting the cooperation in the economic and trade aspects of the "Belt and Road" Initiative¹ and Sub-Regional Cooperation.

3.4.1.2 HKC–New Zealand Closer Economic Partnership Agreement

3.13. The HKC–New Zealand Closer Economic Partnership Agreement entered into force on 1 January 2011. This Agreement is HKC's first FTA with a foreign economy.

3.4.1.3 HKC–EFTA Free Trade Agreement

3.14. HKC and the EFTA States signed an FTA on 21 June 2011. The part of the FTA between HKC, Iceland, Liechtenstein and Switzerland entered into force on 1 October 2012; whereas that between HKC and Norway entered into force on 1 November 2012.

¹ Belt and Road refers to the land-based "Silk Road Economic Belt" and the seafaring "21st Century Maritime Silk Road" which cover economies across Asia, Europe and Africa.

3.15. The first meeting of the Joint Committee (JC) established under the FTA between HKC and EFTA States was held in October 2017. The JC welcomed the smooth and effective implementation of the FTA, and adopted rules of procedures necessary for the effective implementation of the FTA, and an Annex of comprehensive disciplines governing domestic regulation which seeks to ensure that measures affecting trade in services are transparent, administered in a reasonable and objective manner, and do not constitute unnecessary barriers to trade. The Annex will first take effect between HKC and Switzerland, and will apply to other EFTA States pursuant to a decision of the JC in future.

3.4.1.4 HKC–Chile Free Trade Agreement

3.16. Further to the FTA between HKC and Chile which was signed on 7 September 2012 and entered into force on 9 October 2014, the two sides signed a comprehensive investment agreement on 18 November 2016, which will enter into force after the completion of internal procedures.

3.4.1.5 HKSAR and Macao SAR Closer Economic Partnership Arrangement

3.17. The HKSAR and Macao SAR Closer Economic Partnership Arrangement (HK-Macao CEPA) entered into force on 27 October 2017 and the liberalization of trade in goods and services provided for therein was implemented on 1 January 2018.

3.18. The HK-Macao CEPA is comprehensive in scope, covering trade in goods, trade in services, investment, intellectual property, and economic and technical cooperation, among others. Apart from providing legal certainty on tariff-free movement of goods between the two separate customs territories, the two sides agree not to apply tariff rate quotas against goods of each other. On trade in services, market access commitments are complemented with disciplines on domestic regulation to ensure that they do not constitute unnecessary barriers to trade.

3.4.1.6 HKC–ASEAN Free Trade Agreement

3.19. The signing ceremony of ASEAN-HKC FTA was held on 12 November 2017 in the Philippines. The FTA is expected to enter into force on 1 January 2019 the earliest, subject to completion of the required procedures by the relevant signatories².

3.20. The FTA is comprehensive in scope and of value, encompassing trade in goods and related issues, trade in services, economic and technical co-operation, and dispute settlement mechanism. An Investment Agreement was also forged alongside. It is expected that the FTA and the Investment Agreement will reduce restrictions in doing business, enhance trade and investment flow, foster closer trade and economic relations among the FTA parties and contribute to regional economic integration.

3.4.1.7 HKC–Georgia Free Trade Agreement

3.21. The HKC-Georgia FTA was signed on 28 June 2018 and will enter into force after the completion of the necessary internal procedures by both parties.

3.22. The FTA is comprehensive in scope, encompassing trade in goods and related issues, trade in services, investment (establishment), dispute settlement mechanism, and also contains provisions to ensure effective protection of intellectual property rights, promote competition, and enhance protection of environment.

3.4.1.8 Free Trade Agreements under Negotiation

3.4.1.8.1 HKC-Maldives Free Trade Agreement

3.23. HKC commenced FTA negotiations with Maldives in September 2016. The scope of the proposed FTA covers trade in goods and related issues, trade in services, investment, economic

² The FTA will enter into force on 1 January 2019 for HKC and those ASEAN Member States (at least four) which have completed their required procedures.

and technical cooperation, and dispute settlement mechanism. Both sides aim to conclude the FTA as soon as possible to foster closer partnership.

3.4.1.8.2 HKC-Australia Free Trade Agreement

3.24. HKC commenced FTA negotiations with Australia in May 2017. The scope of the proposed FTA includes trade in goods and related issues, trade in services, investment, intellectual property, competition and dispute settlement mechanism. The conclusion of the FTA will foster closer partnership and contribute to regional economic integration.

3.4.1.9 Trade in Services Agreement

3.25. HKC commenced the negotiation on the Trade in Services Agreement (TiSA) in 2013 which involves 23 WTO Members. TiSA is aimed to be a high-ambition and comprehensive agreement with broad participation that could be multilateralized in the future. As a service-oriented economy and a strong exporter of services, HKC sees great value in TiSA which seeks to eliminate trade barriers and liberalize trade in services through improved market access and new and enhanced trade rules. We are ready to advance progress with TiSA participants once negotiation resumes.

3.4.1.10 Investment Promotion and Protection Agreements (IPPAs)

3.26. HKC has been negotiating and concluding IPPAs with foreign economies since 1991, to provide additional assurance to foreign investors and to secure additional protection for HKC investors in respect of their investments overseas.

3.27. As of May 2018, HKC has forged 20 IPPAs with foreign economies, viz. ASEAN, Australia, Austria, Belgo-Luxembourg Economic Union, Canada, Chile, Denmark, Finland, France, Germany, Italy, Japan, Korea, the Republic of Kuwait, the State of the Netherlands, New Zealand, Sweden, Switzerland, Thailand and the United Kingdom. All these IPPAs, except for the ones with Chile and ASEAN, have entered into force.

3.4.2 Other Trade-related Initiatives

3.4.2.1 The Belt and Road Initiative

3.28. The Belt and Road Initiative is a new engine for HKC's economic development. On 14 December 2017, the HKSAR Government and the National Development and Reform Commission of Mainland China signed "the Arrangement between the National Development and Reform Commission and the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative" (the Arrangement). The Arrangement serves as a blueprint for HKC's further participation in the Belt and Road Initiative. Efforts will be stepped up to further open up the Mainland market to HKC, take forward the enhancement of the CEPA, and further promote trade and investment with economies and regions related to the Belt and Road.

3.4.2.2 Guangdong-Hong Kong-Macao Bay Area

3.29. In accordance with the principle of "One Country, Two Systems", HKC has also participated in the drawing up of a development plan for the Guangdong-Hong Kong-Macao Bay Area (the Bay Area) with the National Development and Reform Commission as well as the Guangdong Provincial Government of Mainland China and the Macao SAR Government. The essence of the strategy for the Bay Area Development is to define the development focuses of different cities, identify clusters of competitive industries, as well as leverage on and maximize the Bay Area cities' comparative advantages.

3.30. Being an international city with vast experience on global trading, HKC will act as a gateway to the Bay Area to facilitate multinational companies' access to the Mainland market and as a springboard for Mainland companies seeking to "go global" to expand into international markets, especially those along the Belt and Road. Fully leveraging on its unique position as an international financial and trading centre, a global offshore Renminbi (RMB) business hub and an international asset management centre, plus its lauded professional services sector, HKC is well-placed to meet

the rising demand for fund-raising and financial management services for companies from the Bay Area.

4 KEY DEVELOPMENTS IN TRADE POLICY

4.1. HKC regularly reviews its competitiveness, the state of its economy as well as the direction for developing its industries from a forward-looking and strategic perspective. As a facilitator and a promoter, the Government introduces timely and appropriate measures to support industries where HKC has strengths and development potentials, and tap new markets. HKC will also review regulatory and tax requirements to remove red tape and create a business-friendly environment. Key developments of HKC's trade policy since the last review are set out in the ensuing paragraphs.

4.1 Customs and Trade Facilitation

4.2. Notwithstanding that HKC's customs procedures are recognized as among the easiest and fastest in the world, HKC is committed to striving for further enhancements to its already liberal and highly efficient regulatory regime.

4.3. To encourage the trading and logistics industry to move up the value chain, HKC has capped the charge for each trade declaration at HK\$200 (US\$25.6), so as to further lower the cost of importing and exporting high-value goods to and from HKC, and enhance HKC's advantage as a trading hub. The measure is expected to save the trade HK\$458 million (US\$58.7 million) per year and benefit about 900,000 cases.

4.4. To facilitate customs clearance, the Customs and Excise Department (C&ED) launched the Single E-lock Scheme under the Intermodal Transshipment Facilitation Scheme (ITFS) with the Mainland Customs in March 2016 to facilitate the passage of inter-modal transshipment cargoes. Under the Scheme, a "green lane" is set up to facilitate cargoes vehicle flow at land boundary checkpoints. Aided by electronic locks with GPS, the same consignment will only be inspected once at the boundary, which helps streamline the clearance process and expedite the flow of transshipment cargoes.

4.5. To facilitate cargoes transhipped through HKC to enjoy preferential tariff under FTAs signed between Mainland China and other economies, the C&ED put in place the Free Trade Agreement Transshipment Facilitation Scheme (FTA Scheme) in December 2015. Under this voluntary scheme, the C&ED provides traders with Customs supervision services and issues Certificate of Non-manipulation to certify transshipment cargoes that have not undergone any further processing during their stay in HKC. To date, the FTA Scheme covers cargoes transshipping through HKC between Mainland China and 23³ other economies. As at 31 March 2018, the C&ED received more than 10,000 applications, involving about HK\$6.5 billion's (US\$833 million) worth of cargoes with an estimated preferential tariff savings of over HK\$436 million (US\$55.9 million).

4.6. As at end of May 2018, the C&ED has accredited 47 local companies as Authorized Economic Operators (AEOs), representing an increase of 194% as compared to May 2014, for enjoying customs facilitation, such as reduced inspection and prioritized clearance of cargoes at control points. The C&ED has also entered into Mutual Recognition Arrangements (MRAs) on AEO programmes with the customs administrations of Mainland China, Australia, India, Japan, Korea, Malaysia, Singapore and Thailand respectively. Accredited companies will enjoy customs facilitation in those economies. Currently, the C&ED is holding MRA discussions with Canada, the European Union, Israel, Mexico, and New Zealand.

4.7. To maintain HKC's competitiveness as a trading and logistics hub and to align with the international trend, HKC is pressing ahead with the phased implementation of the Trade Single Window (TSW) for one-stop lodging of all the 50-plus trade documents and submissions with Government for trade declaration and customs clearance purposes, which will help save time and cost for the trading community. Phase 1 is scheduled to be launched in 2018 and will cover

³ Australia, Bangladesh, Brunei, Cambodia, Chile, Costa Rica, Iceland, India, Indonesia, Korea, Laos, Malaysia, Myanmar, New Zealand, Pakistan, the Philippines, Peru, Singapore, Sri Lanka, Switzerland, Chinese Taipei, Thailand and Vietnam.

13 types of trade documents. The Government will continue to engage the industry in implementing the different phases of TSW through to its completion.

4.2 Trading and Logistics Services

4.8. The trading services industry, which accounted for 18% of HKC's GDP and employed close to 15% of the total labour force in 2016, remains an important pillar of the HKC economy. HKC has therefore been proactive in strengthening and consolidating its edge as a trading and logistics hub. Notably, the booming of global e-commerce has generated demands for cross-border logistics and delivery services, particularly air delivery and transshipment services. Apart from fostering closer economic ties with existing and new trading partners, HKC will actively enhance the supporting infrastructure to increase the handling capacity of both air and maritime cargoes, with a view to facilitating the growth of the industry and moving it up the value chain.

4.9. On air transport, the Airport Authority Hong Kong (AAHK) has made available a site of around 5.3 hectares at the South Cargo Precinct of the Airport Island for developing a modern air cargo logistics centre. The Government is also actively considering the redevelopment of the Air Mail Centre at the Hong Kong International Airport (HKIA) to enhance its efficiency and capacity, with a view to fostering cross-border logistics and trading activities through the postal channel. These efforts will enable HKC to leverage on its strategic location and vast aviation network to strengthen its position as a global and regional aviation hub.

4.10. To meet the strategic objective of developing HKC into a trading, storage, logistics and distribution hub for high-value goods, such as pharmaceuticals, AAHK will continue to work closely with the industry to enhance HKIA's capacity to handle high-value temperature-controlled goods and adopt the necessary temperature control facilities to cater for the special requirements in handling such goods.

4.11. On maritime transport, the Hong Kong Maritime and Port Board was established in 2016 with a view to entrenching HKC's position as an international maritime centre. The Government is working closely with the industry to map out strategies and explore measures that will facilitate the development of the maritime and port sectors and high-value-added maritime services in HKC. The Government will continue to devote resources to promote our maritime industry and has set up a dedicated team in Invest Hong Kong to strengthen promotion to attract more renowned maritime enterprises to operate in HKC.

4.3 Financial Services

4.12. HKC is a major international financial centre, comprising an integrated network of institutions and markets which provide a wide range of products and services to local and international customers and investors. HKC's financial markets are characterized by a high degree of liquidity and operate under effective and transparent regulations, which meet international standards. The financial services industry accounted for 17.7% of HKC's GDP and employed close to 6.7% of the total labour force in 2016. To strengthen HKC's competitiveness in the face of increasing global competition and maintain its position as a leading regional and international financial centre, HKC will continue to improve the quality of the market, modernize the regulatory regime and upgrade our market infrastructure.

4.13. In this regard, the Companies (Amendment) Bill 2018 was introduced into the legislature in April 2018 to further facilitate business by, inter alia, streamlining accounting and reporting provisions in the Companies Ordinance to facilitate compliance and providing for more flexibility to small and medium-sized enterprises to reduce their compliance cost.

4.3.1 Banking

4.14. HKC has an open banking sector whereby local and foreign banks compete on a level playing field. Under the current three-tier licensing system, foreign banks may enter the HKC banking market as licensed banks, restricted licence banks or deposit-taking companies. They may operate in the form of locally incorporated companies or branches of foreign banks.

4.15. To strengthen monetary and financial stability and user protection, as well as to foster innovation of the payment industry, under the Payment Systems and Stored Value Facilities Ordinance (Cap. 584) which commenced operation in November 2015, the Monetary Authority is empowered to regulate stored value facilities and designated payment systems.

4.16. HKC has followed the phased implementation timetable of the Basel Committee on Banking Supervision in pursuing the Basel III capital, liquidity and disclosure reforms to strengthen the resilience of the banking sector. Laws have been amended to implement the Basel III reforms, covering the minimum capital adequacy ratios, the capital buffers, the leverage ratio, the liquidity coverage ratio and the net stable funding ratio, together with their associated disclosure requirements.

4.17. The Hong Kong Monetary Authority (HKMA) established the Fintech Facilitation Office in 2016 to facilitate the healthy development of the fintech ecosystem and to promote HKC as a fintech hub in Asia. In September 2017, the HKMA launched seven Smart Banking Initiatives, which cover four main areas. On research and application, the HKMA implemented the Cybersecurity Fortification Initiative in 2016 to raise the cyber resilience of banks, published Whitepapers on Distributed Ledger Technology in 2016 and 2017, and developed an Open Application Programming Interfaces framework for the banking industry in 2018. The Faster Payment System and the Hong Kong Trade Finance Platform are scheduled for launch in September 2018, and the Global Trade Connectivity Network, which joins trade and trade finance platforms in HKC and Singapore, in Q1 2019. On industry liaison, the HKMA has been hosting events for fintech stakeholders to facilitate exchange of ideas. On regulatory interface, the HKMA launched the Fintech Supervisory Sandbox and Fintech Supervisory Chatroom for the industry in 2016 and 2017 respectively, and plans to issue virtual bank licences in 2018. On talent development, the HKMA launched the Fintech Career Accelerator Scheme from 2016. In order to support these initiatives, the HKMA has signed fintech co-operation agreements with six jurisdictions.

4.3.2 Securities and Futures

4.18. HKC has a vibrant securities and futures industry. The Securities and Futures Ordinance (Cap. 571) provides the legal framework for the regulation of the sector on a par with international standards and practices.

4.19. HKC has been implementing a statutory regulatory framework for the over-the-counter (OTC) derivatives market in phases since 2014. This regulatory regime meets the requirements of the G20 and is in line with developments in other international financial centres. The key aspects of the regime include mandatory reporting, clearing and trading obligations, regulation of the necessary infrastructure, and regulation and oversight of key players in the OTC derivatives market.

4.20. HKC currently has a paper-based securities market regime. HKC has been working on an uncertificated securities regime so that investors could choose to hold and transfer securities in uncertificated form, which will in turn allow them to possess the legal ownership, instead of beneficial interest only, in the securities. HKC will shortly consult the stakeholders on the operational details of the regime and make necessary changes to the regulatory framework for enabling the introduction of an uncertificated securities market regime.

4.21. On asset management, upon passage of the relevant legislation in June 2016, a new open-ended fund company (OFC) structure was introduced in HKC to provide an alternative to the existing unit trust structure, so as to provide an additional choice to fund managers. The subsidiary legislation, which sets out the operational details of the OFC regime, came into force in July 2018.

4.3.3 Insurance

4.22. The insurance industry in HKC is a cosmopolitan and competitive one. A level-playing field is maintained for all insurers and insurance intermediaries irrespective of their country of origin. This is evident from the large number of authorized insurers (160 as at 30 April 2018) and the strong

presence of foreign companies, with about 44% of the authorized insurers which were incorporated outside HKC in 22 places.

4.23. To modernize the regulatory infrastructure, facilitate the stable development of the industry, provide better protection for policyholders, and align with international practice that financial regulators should be financially and operationally independent of the Government, the Insurance Companies (Amendment) Ordinance 2015 for establishing the Insurance Authority (IA) and a statutory licensing regime for insurance intermediaries was enacted by the legislature on 10 July 2015. The IA took over the statutory functions of the Office of the Commissioner of Insurance (OCI) on 26 June 2017 to regulate insurance companies. The OCI was disbanded on the same date. The new licensing regime regulating insurance intermediaries is expected to commence in two years' time from the transition, i.e. in June 2019. In addition, HKC is preparing the relevant legislation for the establishment of a Policyholders' Protection Scheme in HKC to improve market stability and safeguard the interest of policyholders in the event of insolvency of an insurer.

4.3.4 Offshore Renminbi (RMB) Business

4.24. HKC has continued to develop as the global hub for offshore RMB business. As at end March 2018, RMB customer deposits and outstanding RMB certificates of deposits totalled RMB 604 billion. With the development of RMB bonds and equity products, HKC has become the largest centre for conducting offshore RMB financing activities. As at end March 2018, outstanding RMB bonds issued in HKC amounted to around RMB 212 billion. HKC also serves as a platform for enterprises and financial institutions from all over the world to conduct RMB trade settlement, payments and investments. In the first three months of 2018, the average daily turnover of HKC's RMB Real Time Gross Settlement system averaged some RMB900 billion, providing pivotal support to global offshore RMB financial activities. In the same period, total RMB trade settlement conducted through banks in HKC amounted to around RMB1,000 billion. Our RMB clearing platform is also supporting banks from all over the world to conduct their RMB transactions. As at end March 2018, there were a total of 199 banks participating in the RMB clearing platform in HKC, of which 173 were branches and subsidiaries of foreign banks and branches and subsidiaries established overseas by banks in Mainland China.

4.3.5 Stock and Bond Connection Schemes

4.25. HKC has also consolidated its position as the gateway for financial investments in Mainland China. Three mutual capital market access schemes have been launched since 2014. Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were launched in 2014 and 2016 respectively, allowing Hong Kong and Mainland investors to trade eligible stocks in each other's securities markets. Northbound trading under Bond Connect was also launched in 2017 to allow overseas investors to trade bonds in the China Interbank Bond Market via linkages established between the financial infrastructure institutions of the two places.

4.4 Tourism

4.26. Tourism contributes significantly to HKC's economy. In 2017, visitor arrivals to HKC totalled at 58.5 million, generating tourism spending of HK\$297 billion (US\$38.1 billion). According to the latest statistics, tourism made up 4.7% of HKC's GDP, employing close to 259,000 people (6.0% of total employment) in 2016.

4.27. In October 2017, the Government released a comprehensive Development Blueprint for HKC's Tourism Industry. The blueprint sets out not only a clear vision and mission to develop HKC into a world-class premier tourism destination and ensure the balanced, healthy and sustainable development of the industry, but also four development strategies as a basis for formulating and taking forward different tourism initiatives. The four development strategies are: (1) to develop a diversified portfolio of visitor source markets, with a focus on attracting high value-added overnight visitors; (2) to nurture and develop tourism products and initiatives with local and international characteristics, including cultural tourism, heritage tourism, green tourism and creative tourism, and to consolidate and enhance HKC's status as a travel destination for Meetings, Incentive travels, Conventions and Exhibitions (MICE) tourism, regional cruise hub, and Events Capital of Asia; (3) to develop smart tourism; and (4) to upgrade the service quality of the tourism industry and encourage the trade in adopting good trade practices. To implement the blueprint full

steam ahead, the Government has allocated an additional HK\$396 million (US\$50.8 million) for the tourism industry in the financial year of 2018/19, which comprises the additional funding of HK\$226 million (US\$29 million) for the Hong Kong Tourism Board to strengthen its promotion efforts, and the remaining HK\$170 million (US\$21.8 million) mainly for taking forward various new initiatives to promote tourism development.

4.5 Business and Professional Services

4.28. Professional services and other producer services contributed 13% of GDP and employed about 530,000 people in 2016. The professional services industry in particular recorded high growth in recent years, contributing nearly 5% of GDP. The HKSAR Government will continue to strengthen government-to-government (G2G) ties with its Mainland China and overseas counterparts and secure more liberalization measures to facilitate access of HKC's service industries to Mainland China and overseas markets under more favourable conditions through CEPA and other arrangements.

4.29. The Professional Services Advancement Support Scheme provides funding support to HKC's professional bodies, trade and industry organizations and research institutes for implementing non-profit-making projects aimed at facilitating promotion and enhancement of HKC's professional services. Projects covering a wide range of professional sectors have been rolled out since July 2017.

4.30. The Hong Kong International Arbitration Centre is instrumental in helping to develop HKC into a dispute resolution centre. The International Court of Arbitration of the International Chamber of Commerce established a branch of its secretariat in HKC in 2008. In 2012, the China International Economic and Trade Arbitration Commission Hong Kong Arbitration Center and the Asia-Pacific Regional Office of the Hague Conference on Private International Law were established in HKC. In November 2014, the China Maritime Arbitration Commission opened a branch office in HKC. In January 2015, the Permanent Court of Arbitration (PCA) signed a host country agreement with the Central People's Government of China and a related memorandum of administrative arrangements with the HKSAR Government to facilitate the conduct of PCA-administered arbitration in HKC, including party-investor arbitration. The PCA has an excellent reputation in handling international investment arbitration and is a leading international institution with its headquarters in The Hague. The presence of these law and arbitration-related institutions is a strong endorsement of HKC's advantage as a legal services hub in the Asia-Pacific region.

4.6 Innovation and Technology

4.31. HKC is committed to creating an environment conducive to the development of innovation and technology, encouraging investment in this area and enhancing cooperation among the Government, industry, academia and research sectors. The Government has devoted considerable efforts to foster innovation and technology development.

4.32. The Innovation and Technology Bureau (ITB) was established in November 2015 with the mission to foster a diversified and knowledge-based economy, thereby raising the competitiveness of HKC and improving the quality of life of citizens. Backed by strong research and development (R&D) capabilities, excellent technology infrastructure, world-class universities, a vibrant pool of R&D talents, a sound legal system and a strong intellectual property protection regime, HKC has an enabling environment for the business sector to collaborate with universities and R&D organizations to conduct applied research and commercialize their innovations.

4.33. The Hong Kong Science Park (HKSP) and Cyberport are HKC's flagship innovation and technology infrastructure. The HKSP is home to about 680 technology companies and its incubation programmes have nurtured over 800 technology start-ups to date. Stage 1 of the HKSP Expansion Programme is underway and expected to be completed in 2020 to provide more research infrastructure for the community. Separately, a Data Technology Hub and an Advanced Manufacturing Centre are being developed in Tseung Kwan O industrial estate with a view to fostering smart production. They are expected to be completed in 2020 and 2022 respectively. We will establish two world-class research clusters at the HKSP, one on healthcare technologies and another on artificial intelligence and robotics technologies. We aim to attract institutions that are among the global top echelon in the two areas to conduct collaborative research in HKC. On the

other hand, Cyberport has established a digital technology community with about 640 companies and has been implementing various initiatives over the years to nurture and support its start-ups at different stages of their development. Since 2005, the Cyberport Incubation Programme has supported over 470 start-ups in digital technology and related areas.

4.7 Intellectual Property Trading

4.34. To enhance HKC's position as an intellectual property (IP) trading hub, the Government set up a Working Group on Intellectual Property Trading in March 2013 to advise on the overall strategy to promote HKC as an IP trading hub in the region. In 2015, the Working Group released a report with 28 recommended measures under four strategic areas, namely (1) enhancing the IP protection regime; (2) supporting IP creation and exploitation; (3) fostering IP intermediary services and manpower capacity; and (4) pursuing promotion, education and external collaboration efforts. The Government accepted the recommendations and has been working in full swing with different IP stakeholders on their implementation since then. The Intellectual Property Department (IPD) has, for example, launched the IP Consultation Service and the IP Manager Scheme to raise SME's awareness of IP protection, and to provide them with support in developing effective IP management and commercialization strategies. The IPD has also published booklets on "IP Audit and Due Diligence" and "IP Licensing" to equip SMEs with the necessary knowledge on IP trading. In addition, the IPD has organized various promotion and public education activities to promote IP trading in an on-going manner, and has also produced short videos to showcase HKC's success stories on IP commercialization. A dedicated website "Hong Kong - The IP Trading Hub" (www.ip.gov.hk) is created by the IPD to provide a one-stop-shop for disseminating IP trading information and other useful resources.

4.35. The IPD has continued to work with the Department of Justice to promote HKC as an international legal services and disputes resolution centre, including one for resolving IP disputes. The two Departments have also worked closely to promote the use of arbitration and mediation to resolve IP disputes. In pursuance of the initiative, the Arbitration (Amendment) Ordinance 2017 was enacted to clarify that disputes over intellectual property right (IPR) can be resolved through arbitration, and put it beyond doubt that arbitral awards involving IP are enforceable in HKC.

4.36. In order to facilitate the formulation of comprehensive strategies to enhance the manpower capacity in IP trading, the IPD commissioned a manpower survey in 2017 to collect data on the latest manpower situation in IP-related industries in HKC. The survey is expected to be completed within 2018.

4.37. Further, with effect from 29 June 2018, the scope of profits tax deductions for capital expenditure incurred for the purchase of IPR has been expanded from the existing five types (covering patents, know-how, copyright, registered designs and registered trademarks) to eight with effect from the year of assessment 2018/19. The additional three types of IPR are rights in layout design (topography) of integrated circuits, plant varieties and performances.

4.8 Protection of Intellectual Property Rights

4.38. HKC is committed to protecting IPR. This commitment is underpinned by respecting private economic rights and recognising the importance of robust IPR protection to HKC's economic growth. HKC achieves this through comprehensive legislation, rigorous enforcement action, sustained public education, close cooperation with rights owners and other law enforcement agencies, and promotion of IP trading.

4.8.1 Legislation

4.39. HKC has put in place a comprehensive legislative framework for the protection of patents, trademarks, copyright, registered designs, layout-designs (topographies) of integrated circuits and plant varieties. HKC's IP laws comply fully with the requirements of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights. It is HKC's on-going commitment to review and enhance its IP regime from time to time to ensure that the regime can meet HKC's socio-economic needs.

4.8.1.1 Patents Law

4.40. In June 2016, the Patents (Amendment) Ordinance 2016 was enacted to provide for an "original grant" patent (OGP) system and refine the existing short-term patent system (collectively known as the new patent system). HKC is now pressing ahead with essential preparatory work on various fronts for the implementation of the new patent system. Such work includes: updating the relevant subsidiary legislation, drawing up the examination guidelines for the OGP system, and developing a new electronic patent filing system. Subject to the progress of the preparatory work, we aim to bring the Amendment Ordinance into force and launch the new patent system in 2019 the earliest.

4.8.1.2 Copyright Law

4.41. HKC is committed to enhancing its copyright regime and making its best endeavours to combat infringing activities, so as to meet economic and social development needs and to catch up with technological advancements and international trends. For example, with the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled coming into force in September 2016, HKC conducted a three-month public consultation in May 2017 to gauge views on the relevant provisions of the Copyright Ordinance which might need to be amended to align with the requirements under the Treaty. Taking into account the views received during the consultation, the Government is preparing a bill to amend the Copyright Ordinance to enhance the copyright exceptions for persons with print disability.

4.8.1.3 Trade Marks Law

4.42. In 2014, a public consultation was launched on the proposed adoption of the international trademark registration system under the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (Madrid Protocol) in HKC, so as to enable trade mark owners to apply for registration in one or more contracting member countries by filing a single application. The feedback received was generally in support of the proposal. In early 2017, the Government decided to proceed with the implementation of the international registration system under the Madrid Protocol. HKC is preparing legislative amendments to the Trade Marks Ordinance and has embarked on preparatory work on various other fronts for its implementation.

4.8.2 Enforcement

4.43. Rigorous enforcement actions are taken by the C&ED against piracy and trademark counterfeiting activities. The C&ED has a strong enforcement team comprising around 240 officers. The infringement situation in HKC has been brought under firm control.

4.44. The Anti-Internet Piracy Teams and Computer Analysis and Response Team of the C&ED are playing a vital role in tackling Internet piracy. To cope with new enforcement challenges arising from the advance of cyber technologies, the C&ED has successfully developed and launched four systems (three collectively called the Lineament Monitoring System and one called the SocNet Monitoring System) for monitoring and tracing infringement on the Internet with a view to strengthening the enforcement capabilities and enhancing effectiveness in combating online piracy and counterfeiting. These systems operate round-the-clock, targeting "peer-to-peer" file sharing, online sale of counterfeit goods and online piracy using cyberlockers. With a view to stepping up enforcement action against online IPR crimes as a result of rapid development of Internet platforms, the C&ED launched the Big Data Analytics System in December 2017 to analyse mass information of infringement activities on the Internet and identify prevailing and emerging trend of online IPR crimes.

4.45. In addition, the C&ED set up an Electronic Crime Investigation Centre (ECIC) in February 2013. The ECIC aims to strengthen research into the latest operation of cyber-crimes, formulate enforcement strategies and procedures on evidence collection and conduct training courses on retrieval and preservation of digital evidence for front-line officers. It also conducts research on online investigation systems. The ECIC received the ISO 9001:2015 Quality Management System Accreditation in February 2017, a testimony to its commitment to quality and compliance with the highest standard.

4.46. The C&ED has been sparing no efforts in combating on-line piracy and sale of illicit TV set-top boxes. In December 2017, three offenders involved in a piracy syndicate circumventing paid TV channels were sentenced to imprisonment ranging from 21 to 27 months. This is the first-ever case in HKC in which charges of "providing circumvention device or service" and "conspiracy to defraud" were applied in successful prosecution against a piracy syndicate of this kind. Moreover, the sentence is the heaviest penalty ever imposed on Internet piracy in HKC. The rulings and the sentences have a strong deterrent effect on similar piracy activities. In May 2018, the C&ED conducted, on top of its regular patrol and enforcement work, a two-day operation to combat the sale of suspected illicit TV set-top boxes and seized suspected illicit TV set-top boxes with an estimated market value of about HK\$320,000 (US\$41,026).

4.8.3 Public Education

4.47. The IPD promotes creativity, awareness of and respect for IPR in the community through on-going and sustained public education programmes, such as the "No Fakes Pledge" Scheme and "I Pledge" Campaign to engender a sense of pride in the selling and buying of genuine goods among HKC's retailers, tourists and local consumers. The "No Fakes Pledge" Scheme is the collaboration between the Government and nine trade associations in the retail sector. In 2017, the scheme covered over six thousand retail outlets in HKC. For the "I Pledge" Campaign, the IPD has collaborated with right-holders and youth associations to organize various events to promote creativity and awareness of IP. School visits and interactive drama programmes have been organized for students in primary and secondary schools as well as tertiary institutions. Since 2016, an IP Ambassador Programme has been organized to instill respect for IPR among students and the general public.

4.48. The C&ED, the IPD, the IP industry and youth groups have also been working closely to enhance the awareness of and respect for IPR. They, for example, launched the "Youth Ambassador Against Internet Piracy" Scheme in 2006, with a view to inculcating in the minds of the participating young people positive values that fortify respect for IPR in the digital environment, and enlisting the support of the "Youth Ambassadors" in reporting infringing activities on peer-to peer networks. At present, the Scheme has more than 250 000 members from 13 local youth uniformed groups. Various educational activities including IPR workshops, visits to production companies and competitions have been organized. Starting from 2016, the C&ED has introduced the IPR Badge Programme to provide organized and systematic IPR education to the youth. Apart from learning more about IPR protection themselves, participants in those courses can also help promote the importance of IPR protection amongst their peers, family members and relatives.

4.8.4 Cooperation with Rights Owners and Law Enforcement Agencies of Other Jurisdictions

4.49. The Government liaises closely with IPR owners to solicit their assistance in fighting IPR infringement. For example, the C&ED has taken the lead in forming an Intellectual Property Rights Protection Alliance (IPRPA) with membership comprising individual companies and stakeholders in the IPR industry. The IPRPA serves as a platform for voluntary monitoring by the IPR owners of IPR infringement activities in the retail market. Members will report to the C&ED on any suspected IPR violation.

4.50. In April 2014, the C&ED established the Electronic Recordation and Triage Centre (ERTC). Through the use of advanced communication systems, the ERTC has helped rights holders, especially those based outside HKC, to complete recordation of their copyrights and trademarks and conduct preliminary examination of the offending goods without the need to come to the C&ED offices in person.

4.51. To guard against transshipment of IPR infringing goods, the C&ED has developed partnership arrangement with major express courier service providers and the Hong Kong Post to facilitate enforcement actions on suspicious parcels. The C&ED has also maintained close cooperation with overseas enforcement authorities to exchange intelligence on both a regular and *ad hoc* bases, as well as mounting parallel and joint operations. The C&ED also works closely in collaboration with international and regional organizations, including the World Customs

Organization (WCO), the WTO, APEC and the INTERPOL in the protection of IPR, and participated actively in various operations coordinated by these organizations.

4.9 Competition Policy

4.52. A free and competitive market is the backbone of HKC's economy. HKC is committed to promoting sustainable competition to enhance economic efficiency and free flow of trade, thereby bringing benefits to both consumers and businesses. The Competition Ordinance (Cap. 619) (CO), which provides a legal framework for tackling anti-competitive conduct in all sectors, came into full effect on 14 December 2015.

4.53. Established under the CO, the Competition Commission is an independent statutory body which enforces the CO and investigates possible contraventions, promotes public understanding of the CO, conducts market studies and advises the Government on competition matters. The Competition Tribunal, also established under the CO, is tasked to hear and adjudicate alleged breaches of the competition rules. Under the CO, the Communications Authority is conferred concurrent jurisdiction with the Competition Commission to enforce the CO in respect of the conduct of undertakings operating in the telecommunications and broadcasting sectors.

4.54. Since the full commencement of the CO on 14 December 2015, the Competition Commission has processed over 2,800 cases, brought two cases to the Competition Tribunal and issued a block exemption order.

5 CONCLUSION

5.1. Notwithstanding the uncertainty posed by the rapidly changing global economic environment, HKC is committed to maintaining its free market policy and supporting progressive trade liberalization. HKC will continue to strengthen and consolidate its edge by maintaining an environment to facilitate the free flow of goods, capital and information, upholding a sound legal system and an independent judiciary, striving for the protection of IPR, and promoting innovation and technology development.

5.2. HKC will continue to work closely with all WTO Members to uphold the multilateral trading system which helps sustain a dynamic but stable international market environment in which our goods and services can compete on a level playing field, and acts as a powerful force in countering the current of protectionism.
